RESULTS OF OPERATIONS

As used in this section, references to increases and decreases, whether in terms of amounts or percentages, are made by comparison of the three months ended March 31, 2008 to the three months ended March 31, 2007.

Revenues

Three months ended March 31 (Canadian dollars in millions)	2008	2007	$ Change	% Change
Transmission	304	327	(23)	(7)
Distribution	908	944	(36)	(4)
Other	10	7	3	43
	1,222	1,278	(56)	(4)
Average Ontario 60-minute peak demand *(MW)*[1]	22,275	23,480	(1,205)	(5)
Distribution - units distributed to customers *(TWh)*[1]	8.5	8.6	(0.1)	(1)

[1]System-related statistics are preliminary

The demand for electricity generally follows normal weather-related variations, and, therefore, our energy-related revenues, all other things being equal, will tend to be higher in the first and third quarters than in the second and fourth quarters.

Transmission

Transmission revenues predominantly consist of our transmission tariff, which is based on the monthly peak demand for electricity across our high-voltage network. The tariff is designed to recover revenues necessary to support a transmission system with sufficient capacity to accommodate the maximum expected demand, which is primarily influenced by weather and economic conditions. Transmission revenues also include minor amounts of ancillary revenues which are primarily attributable to maintenance services provided to generators and secondary use of our land rights-of-way.

Our transmission revenues were lower by $23 million, or 7%, in the first quarter of 2008, compared to the same period last year. Lower average peak demands compared to the same period last year resulted in lower tariff revenues of about $16 million and we also experienced lower other transmission revenues of approximately $1 million.

In addition, as a result of the Ontario Energy Board's (OEB's) August 16, 2007 decision on our transmission rate application, our tariff revenues were lower than the comparable period by approximately $6 million. In its decision, the OEB approved all of our work program expenditure requirements, but reduced our rate of return on equity from 9.88% to 8.35%. The impact of the OEB's decision, which was effective January 1, 2007, was recognized at the decision date. A new regulatory liability, the Revenue Difference Deferral Account (RDDA), was recorded to reflect excess amounts recovered from customers. This account, together with the OEB's transmission Earnings Sharing Mechanism (ESM) that was put in place to equally share 2006 excess transmission earnings between the customers and our shareholder, will be repaid to customers over the period November 1, 2007 to December 31, 2008. In the first quarter of 2008, compared to the first three months of 2007, we experienced a $39 million reduction to our transmission revenues as a result of the OEB's decision to reduce our rate of return. This impact was partially offset by adjustments to our earned revenue of $33 million reflecting the fact that rates include a refund of amounts that were previously recorded as revenue reductions in the ESM in 2006 and RDDA in 2007.

Distribution

Distribution revenues include our distribution tariff, which is based on OEB-approved rates, as well as amounts to recover the cost of purchased power used by our customers. Accordingly, distribution revenues are primarily influenced by our distribution rates, the amount of electricity we distribute, and the cost of purchased power. Distribution revenues also include a minor amount of ancillary distribution services revenues, such as fees related to the use of our poles by the telecommunications and cable television industries, and miscellaneous charges such as those for late payments.

Distribution revenues were lower by $36 million, or 4%, in the first quarter relative to the comparative period. This reduction primarily reflects lower purchased power cost recoveries of $45 million as described below under "Purchased

Power." This reduction in revenues was partially offset by revenue increases following two OEB decisions. The OEB's August 8, 2007 decision on its combined smart meter proceeding allowed us to begin recording revenue related to our installed smart meters. The decision resulted in an increase of $6 million reflecting recovery of our investments under this program. Effective May 1, 2007, the OEB approved increases in distribution tariff rates for our subsidiaries, Hydro One Networks Inc. and Hydro One Brampton Inc., under an OEB incentive rate-setting mechanism. These increases, which support the maintenance and investment requirements of our distribution systems and which enable continued safe and reliable delivery of electricity to our customers throughout Ontario, resulted in higher distribution revenues of $1 million during the quarter. We also experienced higher ancillary revenues of $2 million.

We estimate that a 1% decrease in the forecast long-term Government of Canada bond yield used in the current OEB formula for determining our rate of return would reduce our Transmission Business' results of operations by approximately $20 million and our Distribution Business' results of operations by approximately $13 million.

Purchased Power

Purchased power costs incurred by our Distribution Business represent the cost of electricity delivered to customers within our distribution service territory and consist of the wholesale commodity cost of energy, the Independent Electricity System Operator's (IESO's) wholesale market service charges, and transmission charges levied by the IESO. The commodity cost of energy for certain low-volume and designated customers is based on the OEB's Regulated Price Plan (RPP), which consists of a two-tiered pricing structure with threshold amounts adjusted twice annually. Customers who are not eligible for the RPP pay the market price for electricity, adjusted for the difference between market prices and the prices paid to generators under the *Electricity Restructuring Act, 2004*. A summary of the RPP impacting the reporting period is provided below.

	Tier Threshold (kWh/month)		Tier Rates (cents/kWh)	
Effective Date	**Residential**	**Non-Residential**	**First Tier**	**Second Tier**
November 1, 2006	1,000	750	5.5	6.4
May 1, 2007	600	750	5.3	6.2
November 1, 2007	1,000	750	5.0	5.9

Purchased power costs decreased by $45 million, or 7%, to $596 million in the first quarter compared to the same period last year. Our decreased purchased power costs were primarily due to lower costs of $28 million associated with the OEB's RPP for residential and other eligible customers, the impact of lower charges levied by the IESO of $15 million, including transmission charges due to the OEB's August 16, 2007 transmission rate decision and wholesale market service charges, and lower demand for electricity of $9 million. These decreases were partially offset by higher wholesale commodity prices of $7 million for customers who are not eligible for the RPP.

Operation, Maintenance and Administration

Our operation, maintenance and administration costs are comprised primarily of labour, material, equipment and purchased services in support of the operation and maintenance of the transmission and distribution systems. These costs also include property taxes and payments in lieu thereof on our transmission and distribution lines, stations and buildings.

Operation, maintenance and administration costs for each of our three business segments were as follows:

Three months ended March 31 (Canadian dollars in millions)	**2008**	**2007**	**$ Change**	**% Change**
Transmission	97	99	(2)	(2)
Distribution	115	128	(13)	(10)
Other	9	7	2	29
	221	234	(13)	(6)

Transmission

Operation, maintenance and administration expenditures incurred to sustain our high-voltage transmission stations, lines and rights-of-way decreased by $2 million, or 2%, in the first quarter compared to the same period last year. This change was attributable to a $12 million reduction in our support costs, primarily as the result of a one-time settlement credit associated with our transfer of pension assets to the Inergi LP (Inergi) pension plan following approval from the Financial Services

Commission of Ontario. This settlement related to the transfer of approximately 770 regular employees to Inergi effective March 1, 2002. The impact of this reduction was partially offset by an increase in our work program expenditures of $10 million required to maintain our safe and reliable operation of the transmission system. We carried out increased planned line maintenance, station-related corrective maintenance and forestry work consistent with making an earlier start to this year's program given favourable weather conditions.

Distribution

Operation, maintenance and administration expenditures necessary to maintain our low-voltage distribution system decreased by $13 million, or 10%, in the first three months of 2008 compared to the relative period last year. We experienced lower support expenditures of $11 million, primarily as a result of the Inergi pension asset transfer settlement. Our work program expenditures were also lower by $2 million, primarily as a result of lower conservation and demand management program expenditures following the completion of the OEB program requirements associated with the third phase Market Adjusted Rate of Return and reduced line clearing work. The impact of these work program reductions was partially offset by increased expenditures incurred to respond to winter storm damage.

Depreciation and Amortization

Depreciation and amortization expense for the first three months of the year increased by $5 million, or 4%, to $130 million relative to the comparative period. This increase was mainly attributable to increased depreciation expense related to the placement of new assets in service, consistent with our ongoing capital work program.

Financing Charges

Financing charges decreased by $4 million, or 5%, to $69 million in the quarter compared to the same period last year. This reduction in our net interest expense was primarily due to a $6 million interest credit related to the Inergi pension asset transfer settlement. The impact of this reduction was partially offset by a $2 million increase in interest expense reflecting a higher average level of debt, partially offset by a lower average effective interest rate.

Provision for Payments in Lieu of Corporate Income Taxes

The provision for payments in lieu of corporate income taxes decreased by $7 million, or 12%, to $49 million in the first quarter compared to the same period last year. This decrease was primarily due to a reduction in the statutory tax rate from 36.12% to 33.5%, combined with the impact of other minor temporary differences. Our income before the provision for payments in lieu of corporate income taxes included the effects of the Inergi pension asset transfer settlement.

Net Income

Net income of $157 million was higher by $8 million, or 5%, compared to 2007 first quarter results. This increase was mainly due to the impact of the Inergi pension asset transfer settlement following approval by the Financial Services Commission of Ontario. We also experienced an increase in our distribution tariff revenues reflecting increased smart meter revenues as a result of the August 8, 2007 OEB decision. The impact of these factors was partially offset by lower transmission revenues resulting from the August 16, 2007 transmission rate decision, lower average monthly peak demands and increased work program requirements.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters from June 30, 2006 through March 31, 2008. This information has been derived from our unaudited interim Consolidated Financial Statements which, in the opinion of our management, have been prepared on a basis consistent with the audited annual Consolidated Financial Statements and which include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of our financial position and results of operations for those periods. These operating results are not necessarily indicative of results for any future period and should not be relied upon to predict our future performance.

(Canadian dollars in millions)	2008	2007			2006			
Three months ended	**Mar. 31**	**Dec. 31**	**Sep. 30[2]**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sep. 30**	**Jun. 30**
Total revenues[1]	1,222	1,129	1,128	1,120	1,278	1,142	1,165	1,078
Net income[1]	157	90	67	93	149	101	103	99
Net income to common shareholder[1]	153	85	63	88	145	96	99	94

[1] The demand for electricity generally follows normal weather-related variations, and therefore our electricity-related revenues and profit, all other things being equal, would tend to be higher in the first and third quarters than in the second and fourth quarters.

[2] As a result of the OEB's August 16, 2007 decision on our transmission rate application that was effective January 1, 2007, revenues reflect a reduced revenue requirement based on the approved rate of return of 8.35%. Previously, the rate of return was 9.88%. Revenues in the third quarter of 2007 reflect a $38 million adjustment to revenues in respect of the period January 1, 2007 to August 16, 2007 and reflect the OEB's decision to reduce the rate of return and revise the capital structure of our Transmission Business.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity and capital resources are funds generated from operations, debt capital market borrowings and bank financing. These resources will be used to satisfy our capital resource requirements, which continue to include capital expenditures, servicing and repayment of our debt, payments related to our outsourcing arrangements, investing activities, and dividends.

Summary of Sources and Uses of Cash

Three months ended March 31 (Canadian dollars in millions)	2008	2007
Operating activities	232	294
Financing activities		
Long-term debt issued	550	400
Short-term notes	-	(60)
Dividends paid	(41)	(107)
Investing activities		
Capital expenditures	(211)	(187)
Other financing and investing activities	8	4
Net change in cash and cash equivalents	538	344

Operating Activities

Net cash from operating activities decreased by $62 million, to $232 million, compared to the same period in 2007. This change was primarily due to changes in funding requirements relative to the comparative period, primarily in relation to accounts payable and accrued liabilities associated with our work programs and power purchases.

Financing Activities

Short-term liquidity is provided through funds from operations and our commercial paper program, under which we are authorized to issue up to $1 billion in short-term notes with a term to maturity of less than 365 days. At March 31, 2008, we had no short-term notes payable outstanding. Our commercial paper program is supported by a committed revolving credit facility with a syndicate of banks. On January 28, 2008, we increased the facility from $750 million to $1,000 million. The maturity date remains unchanged at August 10, 2010. The short-term liquidity under this program and anticipated levels of

funds from operations should be sufficient to fund our normal operating requirements. At March 31, 2008, we had $6,165 million in long-term debt outstanding, including the current portion. Our notes and debentures mature between 2008 and 2046. Long-term financing is provided by our access to the debt markets, primarily through our Medium-Term Note Program. We currently plan to refinance maturing debt principally through this program. The maximum authorized principal amount of medium-term notes issuable under this program is $2,500 million, of which $1,650 million is remaining and is currently available until July 2009.

	Rating	
Rating Agency	**Short-term Debt**	**Long-term Debt**
DBRS Limited	R-1 (middle)	A (high)
Moody's Investors Service Inc.	Prime-1	Aa3
Standard & Poor's Rating Services Inc.	A-1	A

We have the customary covenants normally associated with long-term debt. Among other things, our long-term debt covenants limit our permissible debt as a percentage of our total capitalization, limit our ability to sell assets and impose a negative pledge provision, subject to customary exceptions. The credit agreement related to our $1,000 million credit facility has no material adverse change clauses that could trigger default. However, the credit agreement requires that we provide notice to the lenders of any material adverse change within three business days of the occurrence. The agreement also provides limitations that debt cannot exceed 75% of total capitalization and that debt issued by our subsidiaries cannot exceed 10% of the total book value of our assets. We are in compliance with all of these covenants and limitations as at March 31, 2008.

During the first quarter of 2008, we issued $550 million in long-term debt under our Medium-Term Note Program. There were no debt maturities in the first quarter. During the first quarter of 2007, we issued $400 million in debt under our Medium-Term Note Program and had no maturities. For the first quarter of 2008, we had no change in our short-term notes outstanding, compared to a reduction of $60 million in the same period in 2007.

In the first three months of 2008, we paid dividends to the Province of Ontario (the Province) in the amount of $41 million, consisting of $37 million in common dividends and $4 million in preferred dividends. In the comparative period last year, we paid common dividends of $103 million and preferred dividends of $4 million.

Common dividends are declared at the sole discretion of our Board of Directors, and are recommended by management based on results of operations, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations. Common dividends pertaining to the quarterly financial results are generally declared and paid in the immediately following quarter.

Investing Activities

Cash used for investing activities primarily represents capital expenditures for each of our three business segments as follows:

Three months ended March 31 (Canadian dollars in millions)	**2008**	**2007**	**$ Change**	**% Change**
Transmission	107	95	12	13
Distribution	102	91	11	12
Other	2	1	1	100
	211	187	24	13

Transmission

Transmission capital expenditures increased by $12 million, to $107 million in the first quarter compared to the same period in 2007. Our expenditures to expand and reinforce the transmission system were relatively unchanged in the first three months of the year at $47 million, a decrease of $1 million compared to the first quarter of last year. This reduction was primarily attributable to last year's substantial completion of work on our Whitby and London Talbot transformer stations and reduced expenditures on our Lambton Transformer Station, partially offset by load connection work at our Pleasant Transformer Station and increased work on our lines and stations development projects. These projects include our Essa

Transformer Station to Stayner Transformer Station connection, which will improve the adequacy and reliability of supply to the Southern Georgian Bay region in recognition of the growing needs of our customers. In addition, in the first quarter of 2008, we commenced work on our Bruce to Milton Transmission Reinforcement Project to connect redeveloped nuclear and wind generation sources in the Huron-Grey-Bruce area. We also continued work on our new interconnection with Québec, which will increase access to emission-free hydroelectric power. The impact of these increased expenditures was partially offset by last year's completion of our Downtown Toronto Cable Project and last year's expenditures on our Cambridge Preston Transformer Station and our Niagara Reinforcement Project, final completion of which continues to be delayed by the aboriginal land dispute in the Caledonia area. Discussions continue between the involved aboriginal peoples and the various government entities involved. We will complete this project when site access becomes available.

Expenditures to sustain our existing transmission system were $39 million in the quarter, representing a decrease of $2 million compared to the same period in 2007, as a result of lower expenditures on a number of small lines and stations improvement projects. The impact of this reduction was partially offset by increased expenditures related to the refurbishment and replacement of end-of-life equipment at our Claireville Transformer Station to improve current reliability and to meet growing demands. Our other transmission capital expenditures were $21 million in the quarter, $15 million higher than the comparable period last year. This increase resulted from higher information technology expenditures primarily related to an entity-wide system improvement project to replace soon to be retired assets and increase productivity, combined with information security enhancements to the Ontario Grid Control Centre.

Distribution

Distribution capital expenditures increased by $11 million, to $102 million in the first quarter of 2008, compared to the same period in the prior year. Our capital expenditures to expand and reinforce our distribution network were $41 million, $3 million higher than the same period last year. This increase primarily reflects ongoing investments in our Smart Meter Program. During the quarter, we installed approximately 98,000 meters, bringing our cumulative program total to about 386,000 deployed smart meters. The impact of this increase was partially offset by lower expenditures for new customer connections.

Expenditures to sustain our low-voltage distribution system were $45 million in the quarter, an increase of $4 million from the same period in 2007. This increase was primarily a result of higher winter storm-recovery expenditures and planned end-of-life wood pole replacements within our lines work program. These increases were partially offset by lower planned asset replacement work. Our other distribution capital expenditures were $16 million in the quarter, representing an increase of $4 million from last year. This increase is primarily attributable to higher information technology expenditures related to our entity-wide system improvement project.

Future Capital Expenditures

Our capital expenditures in 2008 are budgeted at approximately $1.4 billion. The 2008 capital budgets for our transmission and distribution businesses are about $800 million and $600 million respectively. Our capital expenditures are expected to exceed $1.5 billion in both 2009 and 2010, primarily reflecting increasing investments to expand, refurbish or replace transmission infrastructure. Our overall investment levels reflect transmission infrastructure requirements consistent with government policy, Ontario Power Authority planning information as set up in its Integrated Power System Plan, local area supply requirements and preventive and corrective maintenance requirements to manage aging assets. These investments will facilitate an adequate and reliable supply of electricity in the public interest. These investment levels also reflect the continued mass deployment of smart meters within our distribution businesses that began in 2007. An entity-wide system improvement project to replace soon to be retired assets and increase productivity is also underway. Capital expenditures of our other business segment are budgeted at about $11 million in 2008, about half of the 2007 level, as the implementation of a dedicated fibre optic network that was initiated in 2007 will be completed this year.

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of our debt and other major contractual obligations as well as other major commercial commitments.

March 31, 2008 (Canadian dollars in millions)	Total	2008[1]	2009/2010	2011/2012	After 2012
Contractual Obligations *(due by year)*					
Long-term debt – principal repayments	6,165	540	800	1,100	3,725
Long-term debt – interest payments	5,357	287	606	524	3,940
Inergi LP outsourcing agreement[2]	369	75	189	105	-
Operating lease commitments	15	4	8	2	1
Total Contractual Obligations	11,906	906	1,603	1,731	7,666
Other Commercial Commitments *(by year of expiry)*					
Bank line[3]	1,000	-	1,000	-	-
Letters of credit[4]	99	99	-	-	-
Guarantees[4]	325	325	-	-	-
Pension[5]	173	71	102	-	-
Total Other Commercial Commitments	1,597	495	1,102	-	-

[1] The amounts disclosed represent the balances due over the period April 1, 2008 to December 31, 2008.

[2] On March 1, 2002, Inergi began providing a range of services to us for a 10-year period, including information technology, customer care, supply chain and certain human resources and finance services.

[3] As a backstop to our commercial paper program, we have a $1,000 million revolving standby credit facility with a syndicate of banks which matures in August 2010.

[4] We currently have bank letters of credit of $95 million outstanding relating to retirement compensation arrangements. We have also provided prudential support to the IESO on behalf of our subsidiaries, as required by the Market Rules, using parental guarantees of up to a maximum of $325 million. Although no letters of credit are required for prudential support, we would have to resume providing bank letters of credit if our credit rating deteriorated to below the "Aa" category.

[5] Contributions to the pension fund are made one month in arrears. Contributions for 2008 are based on an actuarial valuation filed in September 2007 and effective December 31, 2006. Our annual pension contributions for 2008 and 2009 will be about $94 million. Contributions beyond 2009 will be based on an actuarial valuation effective December 31, 2009 and will depend on future investment returns, changes in benefits or actuarial assumptions. Pension contributions beyond 2009 are not estimable at this time.

The amounts in the above table under long-term debt are not charged to our results of operations, but are reflected on our Balance Sheet and Statement of Cash Flows. Interest associated with this debt is recorded under financing charges on our Statement of Operations or in our capital programs, but these financing charges are not reflected in the above table. Payments in respect of operating leases and our outsourcing agreement with Inergi are recorded under operation, maintenance and administration costs on our Statement of Operations or in our capital programs.

RELATED PARTY TRANSACTIONS

Related party transactions primarily consist of our transmission revenues received from, and our power purchases payments made to, the IESO, which is a related party by virtue of its status as an agency of our shareholder, the Province. The year-over-year changes related to these amounts are described more fully in our discussion of our transmission revenues and purchased power costs. Other significant related party transactions include our dividends which are paid to the Province and our payments in lieu of corporate income taxes which are paid or payable to the Ontario Electricity Financial Corporation.

STATUS OF OUR TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. At this time, the impact on our future financial position and results of operations is not reasonably determinable or estimable.

We commenced our IFRS conversion project in 2007 and we have established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, information technology, treasury and our operations organizations, among others. Regular reporting will occur to senior executive management and to the Audit and Finance Committee of our Board of Directors. We have also engaged an external expert advisor.

Our project consists of four phases: diagnostic; design and planning; solution development; and implementation. We have completed the diagnostic phase which involved a high level review of the major differences between current Canadian GAAP and IFRS. Currently, we have determined that the areas of accounting difference with the highest potential to impact our company are rate regulated accounting, accounting for fixed assets, payments in lieu of corporate income taxes, employee future benefits, as well as initial adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption of IFRS*.

We are now proceeding to the design and planning phase which will involve establishing issue-specific work teams to focus on generating options and making recommendations in the identified risk areas. Subsequent to carrying out this work at the consolidated level, we will also focus on the specific impacts on our various subsidiaries and regulated businesses that may affect their unconsolidated financial statements. During the design and planning phase, we will establish a staff communications plan, begin to develop our staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

As part of our entity-wide system improvement project, many of our major financial systems will be replaced. To ensure that the future requirements of IFRS can be met, we have included links with this initiative within the governance structure of our IFRS project. We will also ensure there are strong communications between our IFRS project and staff accountable for disclosure controls and internal control over financial reporting. Control requirements will be reevaluated as our IFRS project progresses.

The OEB has also begun its own IFRS project to determine the nature of any changes that should be made in regulatory accounting requirements in response to IFRS. On May 8, 2008, the OEB announced the creation of an IFRS Consultation which will provide an opportunity for Board staff to work with industry participants to identify transition issues and suggest how those issues might be addressed. We plan on participating in this process. We intend to closely monitor any International Financial Reporting Interpretations Committee (IFRIC) initiatives with the potential to impact rate regulated accounting under IFRS and will participate in any related processes, as appropriate.

RECENT DEVELOPMENTS

Bruce to Milton Transmission Reinforcement Project

We announced our recommendations regarding the potential route refinements on our Bruce to Milton Transmission Reinforcement Project in mid-March 2008. The assessments we conducted included input we received from public consultation in the potentially affected areas. Based on our assessments, we have recommended moving the proposed line section in the Halton Hills area from the east to the west side of the existing transmission corridor. The route recommendations will be further examined in the environmental assessment study, which is subject to approval by the Ministry of the Environment as part of the environmental assessment process. The terms of reference for the environmental assessment were approved by the Minister of the Environment on April 4, 2008. The OEB's Section 92 Leave-to-Construct hearing commenced May 1, 2008.

2008 Distribution Rate Applications

In 2007, we filed a cost of service application with the OEB for our Distribution Business operated through our subsidiary Hydro One Networks Inc. The interrogatory process was completed on April 4, 2008, with an oral hearing scheduled to begin on June 23, 2008. Based on the OEB's guidelines, a decision is anticipated in the Fall of 2008. As a result, we

requested that existing 2007 rates be declared interim effective May 1, 2008. We proposed the establishment of a variance account to track the difference between existing rates and the OEB-approved 2008 rates, once new rates are approved and until such time that new rates are actually implemented. On April 11, 2008, the OEB issued a decision approving the establishment of the variance account and declaring our existing 2007 rates interim effective May 1, 2008, with the exception of the component of our rates regarding transmission-related charges applied to our embedded distributors. No amounts will be recorded in the variance account until the OEB makes a decision on the rate application, including the effective date for final rates.

On March 19, 2008, the OEB released its decision regarding the 2008 rate application made by our subsidiary Hydro One Brampton Networks Inc. The OEB approved our submission on the basis of the OEB's cost of capital and second generation incentive regulation mechanism policies. The revised rates, including an amount of 67 cents per month per metered customer for smart meters, were approved with an implementation date of May 1, 2008.

Collective Agreements

We successfully reached new collective agreements with the Power Workers' Union, Canadian Auto Workers and International Brotherhood of Electrical Workers, with three-year terms effective April 1, 2008. The collective agreements have been ratified.

SELECTED FINANCAL HIGHLIGHTS AND RATIOS

Three months ended March 31 (Canadian dollars in millions) (except as otherwise noted)	2008	2007
Net income	157	149
Net cash from operating activities	232	294
Capital expenditures	211	187
Earnings per common share *(Canadian dollars)*	1.524	1.446
Earnings coverage ratio[1]	2.68	2.74
Net asset coverage on long-term debt[2]	1.81	1.86
Total debt to capitalization[3]	55%	54%

[1]The earnings coverage ratio has been presented for the twelve months ended March 31, 2008 and March 31, 2007, respectively and has been calculated as the sum of net income, provision for payments in lieu of corporate income taxes and financing charges divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

[2]The net asset coverage on long-term debt ratio has been presented as at March 31, 2008 and December 31, 2007 and has been calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

[3]Total debt to capitalization ratio has been presented as at March 31, 2008 and December 31, 2007 and has been calculated as total debt divided by total debt plus total shareholder's equity.

FORWARD-LOOKING STATEMENTS AND INFORMATION

Our oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and include beliefs and assumptions made by the management of our company. Such statements include, but are not limited to: expectations regarding developments in the statutory and operating framework for electricity distribution and transmission in Ontario including changes to codes, licenses, rates, rate orders, cost recovery, rates of return, rate structures and revenue requirements in both our transmission and distribution businesses and the timing of decisions from the OEB; expectations regarding our financing activities; statements regarding the pension asset transfer; statements regarding future capital expenditures and our investment plans; expectations regarding the results of our projects; statements regarding future pension contributions; the estimated impact of changes in the forecast long-term Government of Canada bond yield (used in determining our regulated rate of return) on our results of operations; and statements about IFRS. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. We do not intend, and we disclaim any obligation to update any forward-looking statements, except as required by law.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market; no unfavourable decisions from the OEB and other regulatory bodies concerning outstanding rate and other applications; no unforeseen changes in rate orders or rate structures for our distribution and transmission businesses; a stable regulatory environment; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to us, including information obtained from third party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and our credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- the content of the final Integrated Power System Plan, as approved by the OEB;
- delays or denials of the requisite approvals and accommodations for our planned projects;
- regulatory decisions regarding our revenue requirements, cost recovery and rates;
- the risk that we are not able to arrange sufficient financing to repay maturing debt and to fund capital expenditures and other obligations;
- the risks associated with changes in the forecast long-term Government of Canada bond yield; and
- future interest rates, inflation , changes in benefits and changes in actuarial assumptions.

We caution the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail under "Risk Management and Risk Factors" in the 2007 annual Management's Discussion and Analysis (MD&A). You should review the section entitled "Risk Management and Risk Factors" in detail.

This MD&A is dated as at May 14, 2008. Additional information about our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

Three months ended March 31 (Canadian dollars in millions)	2008	2007
Revenues		
Transmission	304	327
Distribution	908	944
Other	10	7
	1,222	1,278
Costs		
Purchased power	596	641
Operation, maintenance and administration *(Note 3)*	221	234
Depreciation and amortization	130	125
	947	1,000
Income before financing charges and provision for payments in lieu of corporate income taxes	275	278
Financing charges *(Note 3)*	69	73
Income before provision for payments in lieu of corporate income taxes	206	205
Provision for payments in lieu of corporate income taxes	49	56
Net income	157	149
Other comprehensive income	(1)	-
Comprehensive income	156	149
Basic and fully diluted earnings per common share *(Canadian dollars)*	1.524	1.446

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (unaudited)

Three months ended March 31 (Canadian dollars in millions)	2008	2007
Retained earnings, beginning of period	1,258	1,184
Net income	157	149
Dividends *(Note 4)*	(41)	(107)
Retained earnings, end of period	1,374	1,226

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (unaudited)

Three months ended March 31 (Canadian dollars in millions)	2008	2007
Accumulated other comprehensive income, beginning of period	(9)	(12)
Other comprehensive income	(1)	-
Accumulated other comprehensive income, end of period	(10)	(12)

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (unaudited)

(Canadian dollars in millions)	March 31, 2008	December 31, 2007
Assets		
Current assets		
Short-term investments	538	-
Accounts receivable (net of allowance for doubtful accounts) *(Note 2)*	828	759
Regulatory assets	82	103
Materials and supplies *(Note 2)*	26	27
Other	9	17
	1,483	906
Fixed assets		
Fixed assets in service	16,826	16,743
Less: accumulated depreciation	6,317	6,220
	10,509	10,523
Construction in progress	742	622
Future use land, components and spares *(Note 2)*	111	109
	11,362	11,254
Long-term assets		
Deferred pension asset	395	380
Regulatory assets	103	110
Goodwill	133	133
Long-term accounts receivable and other assets	7	7
	638	630
Total assets	13,483	12,790
Liabilities		
Current liabilities		
Bank indebtedness	12	12
Accounts payable and accrued charges	676	731
Regulatory liabilities	88	114
Accrued interest	101	55
Long-term debt payable within one year	940	540
	1,817	1,452
Long-term debt *(Note 5)*	5,219	5,063
Other long-term liabilities		
Regulatory liabilities	512	469
Employee future benefits other than pension	870	855
Environmental liabilities	50	52
Long-term accounts payable and other liabilities	14	13
	1,446	1,389
Total liabilities	8,482	7,904
Shareholder's equity		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Total share capital	3,637	3,637
Retained earnings	1,374	1,258
Accumulated other comprehensive income	(10)	(9)
Total retained earnings and accumulated other comprehensive income	1,364	1,249
Total shareholder's equity	5,001	4,886
Total liabilities and shareholder's equity	13,483	12,790

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Three months ended March 31 (Canadian dollars in millions)	**2008**	**2007**
Operating activities		
Net income	157	149
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	123	115
Revenue difference deferral account	(20)	-
Retail settlement variance accounts	28	16
Other regulatory asset and liability accounts	(4)	11
Amortization of discount	-	3
	284	294
Changes in non-cash balances related to operations	(52)	-
Net cash from operating activities	232	294
Financing activities		
Long-term debt issued	550	400
Short-term notes payable	-	(60)
Dividends paid	(41)	(107)
Other	6	(1)
Net cash from financing activities	515	232
Investing activities		
Capital expenditures	(211)	(187)
Other assets	2	5
Net cash used in investing activities	(209)	(182)
Net change in cash and cash equivalents	538	344
Cash and cash equivalents, beginning of period	(12)	(29)
Cash and cash equivalents, end of period	526	315

See accompanying notes to Consolidated Financial Statements.

1. BASIS OF PRESENTATION

These interim Consolidated Financial Statements do not conform in all respects to the disclosure requirements of Canadian generally accepted accounting principles for annual financial statements and should, therefore, be read in conjunction with the annual Consolidated Financial Statements of Hydro One Inc. (Hydro One or the Company) for the year ending December 31, 2007 which include information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies and practices are presented as Note 2 to the annual Consolidated Financial Statements, and have been consistently applied in the preparation of these interim Consolidated Financial Statements, except as described below in Note 2 to the interim Consolidated Financial Statements.

The demand for electricity generally follows normal weather-related variations, and therefore the Company's energy-related revenues, all other things being equal, will tend to be higher in the first and third quarters than in the second and fourth quarters.

2. ACCOUNTING CHANGES

Change in Accounting Policy – Inventory

Effective January 1, 2008, the Company retrospectively adopted Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3031, *Inventories*, with reclassification of comparative prior period amounts. This new section requires that certain major spare parts and standby equipment be reclassified from inventory to fixed assets. The new Handbook section also allows that previously recorded impairment losses taken on inventory to be reversed if there is evidence that the net realizable value has subsequently recovered.

The Company already includes certain major standby equipment as in-service fixed assets and depreciates these assets over their useful lives. To meet the requirements of the new section, the Company has reclassified approximately $42 million (2007 - $40 million) in asset components and equipment previously classified as materials and supplies inventory.

Concurrent with the above reclassification, the Company also reclassified future use land with a carrying value of approximately $69 million (2007 - $69 million) from "fixed assets in service" to "future use land, components and spares."

Future use land, components and spares are not depreciated until they are transferred to active capital projects and those projects are placed in-service.

Change in Capital Disclosures and Financial Instrument Disclosures and Presentation

Effective January 1, 2008, the Company adopted three new accounting standards comprising the CICA Handbook Sections 1535, *Capital Disclosures*; 3862, *Financial Instruments Disclosures*; and 3863, *Financial Instruments Presentation*. The adoption of these new standards required the disclosure of qualitative and quantitative information about the Company's capital and how it is managed, and an increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments. The adoption of the new standard on presentation carried forward unchanged the presentation requirements from Section 3861, *Financial Instruments Disclosure and Presentation*, and therefore adoption of this new standard did not have any impact on the interim Consolidated Financial Statements.

Capital Disclosures

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing effective access to capital, the Company targets to maintain an "A" category long-term credit rating.

The Company considers the capital structure to consist of shareholder's equity, short-term and long-term debt, and cash and cash equivalents. The Company's capital structure as at March 31, 2008 and December 31, 2007 was as follows:

(Canadian dollars in millions)	March 31, 2008	December 31, 2007
Long-term debt payable within one year	940	540
Less (plus): Cash and cash equivalents	526	(12)
	414	552
Long-term debt	5,219	5,063
Preferred Shares	323	323
Common Shares	3,314	3,314
Retained Earnings	1,374	1,258
	5,011	4,895
Total Capital	10,644	10,510

For the purposes of this table and the Consolidated Statements of Cash Flows, "cash and cash equivalents" refers to the Consolidated Balance Sheet items "short-term investments" and "bank indebtedness."

The Company has customary covenants typically associated with long-term debt. Among other things, Hydro One's long-term debt and credit facility covenants limit the permissible debt to 75% of the Company's total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. Hydro One is in compliance with all of these covenants and limitations.

Financial Instrument Disclosures

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk and its foreign exchange risk is currently insignificant, although the Company could in future decide to issue foreign currency denominated debt. Hydro One is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution and transmission businesses is derived using a formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. The Company estimates that a 1% decrease in the forecast long-term Government of Canada bond yield used in the current OEB formula for determining the Company's rate of return would reduce its Transmission Business' results of operations by approximately $20 million and its Distribution Business' results of operations by approximately $13 million.

Credit Risk

Financial assets create credit risk that a counter-party will fail to discharge an obligation, causing a financial loss. The Company's revenue is earned on a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any individual customer. As at March 31, 2008, there were no significant balances of accounts receivable due from any single customer.

In the quarter, the Company's provision for bad debts increased by $1 million to $22 million as a result of write-offs and adjustments determined on the basis of a review of overdue accounts, taking into consideration historical experience. As at March 31, 2008, approximately 5% of the Company's accounts receivable were aged more than 60 days, while approximately 86% was classified as current.

Hydro One manages its counter-party credit risk through various techniques including, entering into transactions with highly rated counter-parties, limiting total exposure levels with individual counterparties consistent with the Company's Board-approved Credit Risk Policy, entering into master agreements which enable net settlement and the contractual right of offset, and monitoring the financial condition of counterparties. Short-term investments held as at March 31,

2008, were consistent with the credit exposure limits specified under the Company's Credit Risk Policy. The Company's credit risk for short-term investments and accounts receivable is limited to the carrying amount on the Consolidated Balance Sheet.

The Company uses derivative financial instruments to manage interest rate risk. Derivative financial instruments result in exposure to credit risk since there is a risk of counter-party default. As at March 31, 2008, the only derivative instrument held by Hydro One was a floating interest rate swap agreement related to a $40 million step-up coupon note. The exposure to credit risk from this derivative instrument as at March 31, 2008 was insignificant.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, and the Company's Commercial Paper Program, under which Hydro One is authorized to issue up to $1 billion in short-term notes with a term to maturity of less than 365 days. The Commercial Paper Program is supported by a $1 billion committed revolving credit facility with a syndicate of banks maturing in August 2010. The short-term liquidity under this program should be sufficient to fund normal operating requirements.

Emerging Accounting Changes – Rate Regulated Operations

In August 2007, the Canadian Accounting Standards Board (AcSB) issued a decision, effective January 1, 2009, to withdraw the temporary exemption in CICA Handbook Section 1100, *Generally Accepted Accounting Principles*, which permits the recognition and measurement of assets and liabilities arising from rate regulation. Further, CICA Handbook Section 3465, *Income Taxes* was amended to require the recognition of future income tax liabilities and assets for regulated enterprises that were previously not subject these provisions. Consequently, the Company will be required to reflect on its Consolidated Balance Sheet, the effect of applying the liability method when accounting for payments in lieu of corporate income taxes and a corresponding regulatory asset. The Company is currently assessing the impact of the AcSB's decision on its Balance Sheet.

3. PENSION ASSET TRANSFER

Effective March 1, 2002, Hydro One began receiving a range of services from Inergi LP, including information technology, customer care, supply chain and certain human resources and financial services. In connection with this agreement, the Company transferred approximately 770 regular employees to Inergi LP. On March 10, 2008, the Company was granted consent from the Financial Services Commission of Ontario to transfer pension assets and related pension liabilities for affected employees from the Hydro One Pension Plan to the Inergi LP Pension Plan. The pension asset transfer will occur in the second quarter. Under the agreement, the Company recognized a settlement of $21 million in its results of operations, inclusive of a related interest credit of $6 million.

4. DIVIDENDS

During the three months ended March 31, 2008, preferred dividends in the amount of $4 million (2007 - $4 million) and common dividends in the amount of $37 million (2007 - $103 million) were declared.

5. LONG-TERM DEBT

In January 2008, the Company entered into a forward starting interest rate swap agreement to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. This transaction had a notional amount of $60 million and was used to lock in the interest rate of a forecasted debt issuance which took place on March 3, 2008. The transaction was accounted for as a cash flow hedge of a forecasted transaction.

On March 3, 2008, Hydro One issued additional notes under the Company's medium term note program. The new issue was comprised of medium term notes with a principal amount of $250 million having a 3 year term with a coupon rate of 4.08%. The notes are due March 3, 2011. At the same time the Company made an additional offering of 5.18% medium-term notes that originally settled October 18, 2007. The issue is comprised of medium term notes with a

principal amount of $300 million having a 9.6 year term with a coupon rate of 5.18%. The notes are due October 18, 2017. In relation to this debt issuance, on March 3, 2008, the Company terminated the three forward starting interest rate swaps having a total notional principal amount of $200 million entered into in the last quarter of 2007 and the first quarter of 2008. The transactions had been accounted for as cash flow hedges of a forecasted debt issue for the purpose of fixing the interest rate for the debt issuance. The net loss realized on terminating the swaps was $1.2 million which has been recorded in Other Comprehensive Income and will be amortized to financing charges over the term of the related debt.

6. EMPLOYEE FUTURE BENEFITS

Total benefit costs are as follows:

Three months ended March 31 (Canadian dollars in millions)	2008	2007
Pension		
Net periodic benefit cost	10	25
Pension fund contribution	25	25
Less: Portion attributable to labour and capitalized as part of the cost of fixed assets	10	10
Charged to results of operations	15	15
Employee Future Benefits Other than Pension		
Net periodic benefit cost	23	27
Less: Portion attributable to labour and capitalized as part of the cost of fixed assets	9	10
Charged to results of operations	14	17

7. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering and selling electricity to customers; and
- An "other" segment primarily consisting of a telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the products and services provided. Segment information on the above basis is as follows:

Three months ended March 31 (Canadian dollars in millions)	Transmission	Distribution	Other	Consolidated
2008				
Segment profit				
Revenues	304	908	10	1,222
Purchased power	-	596	-	596
Operation, maintenance and administration	97	115	9	221
Depreciation and amortization	59	70	1	130
Income before financing charges and provision for payments in lieu of corporate income taxes	148	127	-	275
Financing charges				69
Income before provision for payments in lieu of corporate income taxes				206
Capital expenditures	107	102	2	211

Three months ended March 31 (Canadian dollars in millions)	Transmission	Distribution	Other	Consolidated
2007				
Segment profit				
Revenues	327	944	7	1,278
Purchased power	-	641	-	641
Operation, maintenance and administration	99	128	7	234
Depreciation and amortization	60	64	1	125
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	168	111	(1)	278
Financing charges				73
Income before provision for payments in lieu of corporate income taxes				205
Capital expenditures	95	91	1	187

(Canadian dollars in millions)	March 31, 2008	December 31, 2007
Total assets		
Transmission	7,310	7,273
Distribution	5,529	5,411
Other	644	106
	13,483	12,790

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

8. SUBSEQUENT EVENTS

On April 11, 2008, the OEB ordered that existing 2007 distribution rates be declared interim as of May 1, 2008. The OEB also noted that it will allow Hydro One to track in a variance account the difference between revenue based on current rates and the distribution 2008 revenue requirement to be approved later this year for the period from May 1, 2008 until such time as final rates are implemented. No amounts will be recorded in the variance account until the OEB makes a decision on the Company's current distribution rate application, including the effective date for final rates.

On April 11, 2008, Hydro One gave notice that it will not extend the maturity date of its $40 million extendible step-up note beyond its current maturity date of May 15, 2008. The notes will be redeemed at that time at a redemption price equal to the principal amount plus any accrued and unpaid interest.

9. COMPARATIVE FIGURES

The comparative unaudited interim Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2008 unaudited interim Consolidated Financial Statements.